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The Influence of Funding Decisions, Investment, and Liquidity Decisions on the Profitability

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ABSTRACT: Companies must always strive to maximize their income in getting results and levels of profit. Companies can maximize their advantages if financial management knows the factors influencing profitability. Profit plays a massive role in determining whether a company will experience difficulty or can continue to survive in the industrial world.

This study aimed to determine the influence of Debt to Equity Ratio (DER), Total Asset Growth (TAG), and Current Ratio (CR) on Return on Assets (ROA) in food and beverages sub-sector companies listed on the Indonesia Stock Exchange for the period 2017- 2022. This research method uses quantitative methods. A total of 16 companies were included in the sample study. These samples were taken using a purposive sampling method. Hypothesis testing in this research uses panel data analysis with the E-views 12 program.

This research shows that DER, TAG, and CR. influence ROA, and partially, DER harms ROA, but TAG and CR. partially do not influence ROA.

KEYWORDS: Debt to Equity Ratio, Total Asset Growth, Current Ratio, and Return on Assets.

INTRODUCTION

Increasing profits is one of the company's goals. Therefore, companies must always maximize their income to get the best results and profit margins to reach the objective. The ability of a company to produce profit is influenced by internal and external factors (Fahmi, 2017).

According to Kasmir (2016:196), potency company chases benefits and effectiveness, and its management is assessed using profitability ratios. Every issuer has its objective to get profit or profit; therefore, that profit is something the company holds a vital role in determining if the company will roll out or be capable of surviving in the industrial world. Monitoring the amount of liquidity in a company consistently is one strategy for the company to grow and thrive. One way that companies can maintain and advance their companies is by continuing to monitor their company's liquidity level (Kasmir, 2019).

Count ratio profitability company will disclose the company's competence in generating profit. Profitability is an important issue that companies consider due to poor profitability, which will make it difficult to obtain outside funding. Before investing in something, the company's investors are apprehensive about its level of profitability (Gitman, 2014). The amount of investment the company makes to support operations in everyday life can influence how productive a company is. Productivity growth will increase the profitability or income of the company (Darminto, 2019).

In this study, researchers used Return On Assets (ROA) as a ratio to calculate profitability. Because ROA is sensitive to possible factors that impact the company's ability to obtain profit, this evaluates how much practical use of capital is managed in a way overall (Harjito & Martono, 2021). Profitability assets can be measured with a ratio known as finance as ROA. An organization produces higher profit if it has a bigger ROA. The greater the percentage, the more investor potential the company will draw. Income profit companies will affected if this ratio decreases because of the debts and burdens they bear the company more than income (Gitman, 2014).

Several factors, including funding decisions, investment decisions, and liquidity, can influence the size of a company's profitability. According to Keown and Martin (2018), election composition money companies are known as decision funding. Funding decisions are essential in determining the owner's welfare and the company's continuity (Hanafi, 2018).

The Influence of Funding Decisions, Investment, and Liquidity Decisions on the Profitability

According to Horne (2013), companies must be able to compare the use of debt and their capital to determine the appropriate funding composition. If the proportion of debt increases, the amount of operational funds available increases. If debt is managed well, it can increase company profits and profitability.

In this research, funding decisions are proxied by the debt-to-equity ratio (DER) because, according to Syamsuddin (2013), it can display the capital structure or composition of a debt or credit company in a way as a whole. However, more debt is often used instead of equity, which can generate higher interest rates. More DER is tall because it will lower profitability. The ROA value will decrease along with a decline in profit. As a result, an increase in the DER value will cause a decrease in the ROA value (Supriadi, 2020).

According to Halim (2018), one of the responsibilities of financial management is making investment decisions. These decisions involve distributing internal and external money to the company, among various investment opportunities, to earn a more considerable profit than the cost of capital in the long run.

In this research, investment decisions are proxied by Total Asset Growth (TAG) because, according to Suryani (2016), it reflects the company's current asset growth compared to changes in total assets in the past. The greater the growth in the value of a company's assets, the more investors will trust the company and be willing to invest their capital there. The company will use the funds from these investors to increase capital, which will increase profits (Ariyanto, 2016).

According to Hani (2015), a capacity company For fulfilling the obligation period is urgently short, known as liquidity. Liquidity is closely related to profitability because liquidity reflects the company's cash to carry out daily operations. If the company can manage liquidity properly, profitability will be increased. On the other hand, if liquidity is not handled appropriately, profitability will go down (Hayat, 2018).

In this research, liquidity is proxied by the Current Ratio (CR) because it can be used to measure the company's ability to pay off its short-term debt moment. It is billing in a way overall (Prihadi, 2013). Investors believe that a company with stable and profitable finances will have a high CR to fulfill its obligation period and improve its income (Sudana, 2015).

Based on this explanation, in this res, the variables TAG, DER, and CR are used as independent variants that influence profitability, where profitability is proxied by ROA as the dependent variable.

Deep objects this research is a Consumer Goods company listed on the Indonesian Stock Exchange (IDX) and released a financial report for 2017 until 2021. Consumer goods companies were chosen as research objects because they are significant in meeting people's daily needs. Industry consumer goods consistently become prime movers and support the national economy amid turmoil and the problematic consequences of the COVID-19 pandemic.

The hypothesis in the study is: do DER, TAG, and CR partially and simultaneously influence ROA in consumer goods companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2022 period?

LITERATURE REVIEW

The literature review in this research includes an explanation of the variables used, namely funding decisions (X_1), investment decisions (X_2), liquidity (X_3), and profitability (Y).

Profitability

According to Harahap (2015), profitability is defined as a company's ability to generate profits from its economic activities using its resources. Profitability shows a company's capacity to maximize internal resources and generate profits for certain things (Mahmudi, 2019). Profitability is calculated by using the ROA ratio. According to Ermaini et al. (2021), this ratio captures the company's operational efficiency in managing its assets by comparing its ability to create profits with the total assets. In other terms, it explains how successful a company is at creating revenue using available assets. The following is a formula for calculating ROA:

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Asset}} \text{x } 100\%$$

Funding Decisions

Sulindawati (2017) states that funding decisions influence how a company seeks funds to finance investments and how it chooses the composition of its funding sources. Sample (2023) states that funding decisions involve using alternative sources by companies. A company's financing decisions indicate how it finances its assets or operational costs. Funding decisions are calculated using DER because, according to Syamsuddin (2013), a larger DER is considered riskier. After all, it will cause higher interest rates and greater profitability. The following is a formula for calculating DER:

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

Investation decision

According to Nuzula and Nurlaily (2020), investment decisions are decisions taken by financial managers to invest company capital in various available assets to generate returns in the future. According to Sari (2020), investment decisions are decisions about allocating funds between asset complete company, including asset real and financial. Investment decisions are calculated with TAG because TAG reflects the company's current asset growth compared to past changes in total assets. Past growth in total assets will describe the company's future profitability and growth (Suryani, 2016). The following is the formula for calculating TAG :

$$\text{Total Asset Growth (TAG)} = \frac{\text{Total assets of current year} - \text{Total assets of previous year}}{\textit{Total assets of previous year}}$$

Liquidity

According to Hani (2015), liquidity is a company's ability regarding short-term debt that must be met immediately. Mala (2022) states that liquidity means easily converting company assets or securities into cash. Liquidity is proxied by CR. because it can be used to assess a company's ability to pay short-term debt or debt that will mature when it is billed in full (Wardiyah, 2017). The following is a formula for calculating the CR.:

$$\text{Current Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

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RESEARCH METHODS

Study This uses a quantitative study. This technique involves the research researcher as an instrument for investigating the conditions of natural objects with an approach description. In studying this, the writer describes problems found. Nature research is purposeful for describing something, a situation, or existing phenomena, so objective mainly focuses on explaining object research and phenomena that happened (Sugiyono, 2018).

As for the subject th, the research included 16 *food and beverage* sub-sector companies registered on the IDX for the 2017-2022 period. The research objects used in this research are funding decisions (X_1), investment decisions (X_2), liquidity (X_3), and profitability (Y).

This research was conducted at the Institute of Business and Informatics Kesatuan in Bogor. Sample in the research is the company sector *food and beverage* listed on the Indonesia Stock Exchange (IDX) during the research period (2017-2022). Technique taking sample done with the method *purposive sampling* with criteria sample including, among others, the following :

1. Food and beverage sub-sector companies listed on the Indonesia Stock Exchange (BEI)
2. The company has been listed on the Indonesian Stock Exchange (IDX) during the research period, namely 2017-2022
3. Companies that achieve positive profits during the research period

From 40 food and beverage sub-sector companies listed on the Indonesian Stock Exchange (IDX), a sample of 16 companies was obtained. The following is a list of companies used as research samples.

Table 1. Food and beverages sub-sector companies listed on the Indonesia Stock Exchange (IDX)

No	Issuer Code	Company name	IPO date
1.	ADES	Akasha Wira International Tbk.	June 13, 1994
2.	BUDI	Budi Starch & Sweetener Tbk.	May 08, 1995
3.	CAMP	Campina Ice Cream Industry Tbk.	December 19, 2017
4.	CHECK	Wilmar Cahaya Indonesia Tbk.	09 July 1996
5.	CLEO	Sariguna Primatirta Tbk.	May 05, 2017
6.	DLTA	Delta Djakarta Tbk.	February 27, 1984
7.	HOCKEY	Buyung Poetra Sembada Tbk.	June 22, 2017
8.	ICBP	Indofood CBP Sukses Makmur Tbk.	07 October 2010
9.	INDF	Indofood Sukses Makmur Tbk.	July 14, 1994
10.	MLBI	Multi Bintang Indonesia Tbk.	December 15, 1981
11.	MYOR	Mayora Indah Tbk.	July 04, 1990
12.	BREAD	Nippon Indosari Corpindo Tbk.	June 28, 2010
13.	SKBM	Sekar Bumi Tbk.	September 28, 2012
14.	SKLT	Sekar Laut Tbk.	September 08, 1993
15.	STTP	Siantar Top Tbk.	December 16, 1996
16.	ULTJ	Ultra Jaya Milk Industry & Trading Company Tbk.	(July 02, 1990).

Source: https://www.idx.co.id/

The data collection method in this research uses the documentation method by collecting secondary data from various sources.

The data testing method used the panel regression analysis method using the E-views 12 program. Hypothesis testing uses the coefficient of determination test (R^2) to measure the extent to which variations in independent variable values influence variations in the dependent variable (Sugiyono, 2018). Simultaneous test, F test, partial test, or t-test to determine how much influence the independent variable has on the dependent variable (Ghozali, 2018).

RESULTS AND DISCUSSION

The variables used in this research are DER, TAG, the independent variables table, and the dependent variable. Following are the results testing the hypothesis.

1. Hypothesis Testing Results
   a. Coefficient of Determination Test (R^2)

Table 2

Hasil Uji Koefisien Determinasi

R-squared	0.732088	Mean dependent var	0.104896
Adjusted R-squared	0.669459	S.D. dependent var	0.085692

Source: E-views 12, data processed 2023

Based on Eviews testing, 12 adjusted R-square values were obtained, amounting to 0.669459. It shows that the percentage gain from the influence of the independent variable on the dependent variable is 66.94%, meaning that the independent variable used can explain 66.94% of the dependent variable. Other factors outside the research model influence the remaining 33.06%.

b. Simultaneous Test (F)

Table 3.

Simultaneous Test Results (F Test)

F-statistic	11.68933	Durbin-Watson stat	1.541350
Prob(F-statistic)	0.000000		

Source: *E-views* 12, data processed 2023

Simultaneous test results obtained the calculated F value of 11.68933, while the F table with a level of α = 5%, n = 96 is 1.80. Thus, the F count > F table (11.68933> 1.80) has a probability value (F-statistic) of 0.000000, which is smaller than the significance level of 0.05. It shows that the variables DER, TAG, and C.R. jointly influence ROA (simultaneously).

c. T Test (T)

Table 4

Partial Test (T)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.152608	0.020296	7.519023	0.0000
DER	-0.068950	0.025794	-2.673053	0.0092
TAG	0.021298	0.024543	0.867777	0.3882
CR	-0.001342	0.002451	-0.547414	0.5857

Source: E-views 12, data processed 2023

The results of the T-test (partial) on the selected FEM model are :

1. DER variable
   The t-calculated DER value is -2.673053, and the DER coefficient is -0.068950. N DER probability value is 0.0092 < 0.05. It can be concluded that the DER variable negatively influences ROA.
2. TAG variable

The TAG t-calculation result is 0.867777, and the coefficient is 0.021298, while the TAG probability value is 0.3882 > 0.05. Can it be concluded that the TAG variable did not affect ROA?

3. CR.
   The CR t-calculation result is -0.547414, and the coefficient is -0.001342. CR's probability value is 0.5857 > 0.05. With this, the variable CR does not influence ROA.

DISCUSSION

After testing the research variables, we will discuss the dependent variable's influence on the independent variable.

The influence of DER on ROA

Based on the test results, DER affects ROA. It is proven by the probability value of 0.0092 < 0.05. The results of this research are appropriate and proven empirically.

DER is the asset acquisition ratio whose funding source is debt or lenders (Syamsuddin, 2013). The higher the DER and the higher the dependence on external parties (creditors), the greater the company's cost burden and the lower the company's profitability. Conversely, when DER is low, the level of dependency company on the part outside (creditors) will be low so that the burden cost will go down, and profitability will increase. Based on the calculations that have been made, the influence of negative DER on ROA means that if DER is high, then ROA will be low, and when DER is low, then ROA will increase.

DER harms ROA because, based on the company's financial reports, total debt in 2019 decreased while net profit increased. In 2022, the company's total debt will decrease while net profit will increase, meaning that the greater the debt, the less profit or profit the company will get.

The results of this research are in line with previous research conducted by Fauzi and Puspitasari (2021), Putra and Nurhidayati (2022), and Suyono (2022), which stated that DER harms ROA. The results of this research differ from those conducted by Alarussi and Gao (2021), who state that DER has a positive effect on ROA.

The effect of TAG on ROA

The test results in this research show that TAG does not affect ROA. It is proven by the probability value of 0.3882 > 0.05.

The lack of effect of TAG on ROA can be caused by the company's inability to increase sales that are greater than the increase in total assets so that the increase in assets does not have an impact on increasing the company's sales, income, and profits. Thus, the increase in assets does not affect the increase in profits. Therefore, the increase in TAG does not affect ROA.

Based on data in the company's financial reports, it was found that the company's total assets were increasing from year to year. In contrast, profits increased from 2017-2022 but decreased in 2022, which means that the increase in total assets did not affect the increase in company profits.

The results of this research align with previous research conducted by Prasetyo and Sulastiningsih (2022) and Said & Mande (2020), which stated that TAG does not affect ROA.

CR Influence on ROA

CR results do not affect ROA. It is proven by the probability value of 0.5857 > 0.05.

CR is a measure of a company's ability to use its current assets to pay short-term liabilities, or a high CR shows that the company can meet short-term obligations so that the company's profitability will increase because investors believe that the company is in a stable financial condition (Sudana, 2015). However, the company must pay attention because a CR that is too high can indicate that there are idle funds/CR that are considered less productive and ultimately reduce the company's profitability and ROA.

CR does not affect ROA due to the company's inability to make efficiency or savings on costs or sales. A high CR can fulfill all of the company's short-term obligations; however, it only contributes to increasing company profits. So, a high CR does not necessarily create a high ROA. Therefore, conversely, low CR does not necessarily create low ROA; therefore, CR is not significant to ROA. The company's financial reports support it; 2018 its current assets decreased, its current liabilities increased, but profits increased that year. In 2022, current assets and liabilities will increase, but profits will decrease in that year. It indicates that the increase or decrease in current assets and liabilities does not affect the increase in company profits.

Previous research that supports the results of this research is research conducted by Muthohharoh and Pertiwi (2021), Hutagaol and Sinabutar (2020), and Fauzi and Puspitasari (2021), who stated that CR does not influence ROA.

The influence of DER, TAG, and CR on ROA

Test results based on the F test (simultaneous) show that DER, TAG, and CR influence ROA. It is proven by the probability value of 0.000000 < 0.05 and the f-count value of 11.68933 > f-table 1.80.

CONCLUSIONS AND SUGGESTIONS

This research aims to understand better the factors that influence profitability. Based on research findings, DER partially harms ROA. The higher the DER, the higher the dependence on external parties (creditors), the greater the company's cost burden, and the lower the company's profitability and vice versa. TAG and CR partially do not affect ROA. TAG does not affect ROA due to the company's inability to increase sales that are greater than the increase in total assets, so the increase in assets has no impact on increasing the company's sales, income, and profits. Thus, the increase in assets does not affect the increase in profits. CR does not affect ROA due to the company's inability to save efficiently on costs or sales. A high CR can fulfill all of the company's short-term obligations and does not contribute to increasing company profits. So, a high CR does not necessarily create a high ROA and vice versa. Then, simultaneously or together, DER, TAG, and CR affect ROA.

Based on the research results and discussions that have been carried out, the researcher provides suggestions regarding the research. Namely, the company is expected to further increase profitability by utilizing all current assets owned so that there are no idle funds. Companies must also balance the amount of debt with the company's ability to make sales to increase profit growth. Expected by the company is capable of regulating its funding structure, which comes from debt, so that it does not negatively influence company profitability. Investors and potential investors need to pay attention to aspects of financial ratios such as DER, TAG, and CR, which can influence the company's profitability so that they can determine the profits and risks of investment in the future. So that further researchers can develop research with a more extended period, increasing the number of samples or considering other sub-sectors outside the food and beverages sub-sector.

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